

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 ACDA-07 CIAE-00 DODE-00 PM-04

H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-04 CEA-01

AGRE-00 FEAE-00 INT-05 /111 W

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R 160757Z MAR 77

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 4098

INFO AMEMBASSY MOSCOW

USLO PEKING

AMEMBSSY SEOUL

AMEMBASSY TOKYO

C O N F I D E N T I A L HONG KONG 2945

E.O. 11652: GDS

TAGS: ETRD, CH, KN, UR

SUBJECT: SINO-NORTH KOREAN TRADE

REF: (A) 76 MOSCOW 2167, (B) PEKING A-37, (C) HONG KONG 2586

SUMMARY: PRC-NORTH KOREAN TRADE, WHICH WAS SUPPOSED TO REACH \$394 MILLION IN 1976, IS LIKELY TO INCREASE UNDER TRADE AGREEMENTS SIGNED RECENTLY IN PEKING. PEKING WILL PROBABLY ATTEMPT TO MATCH INCREASES IN SOVIET-NORTH KOREAN TRADE. END SUMMARY.

1. THE PRC AND NORTH KOREA SIGNED A LONG-TERM TRADE AGREEMENT AND A 1977 TRADE PROTOCOL IN PEKING ON MARCH 12 (NCNA). NEITHER THE AMOUNT OF TRADE INVOLVED NOR THE DURATION OF THE LONG-TERM ACCORD WAS DISCLOSED.

2. RELIABLE REPORTS (REF B) INDICATE THAT THE SINO-NORTH KOREAN TRADE AGREEMENT FOR 1976 CALLED FOR CONFIDENTIAL

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TWO-WAY EXCHANGES OF GOODS WORTH SOME US\$394 MILLION IN 1976, BUT ACTUAL TRADE RARELY MATCHES PLANNED LEVELS AND PROBABLY DID NOT DO SO LAST YEAR. THIS COMPARES WITH \$364 MILLION IN 1975 AND \$310 MILLION IN 1974. PRC-NORTH KOREAN TRADE APPEARS TO BE ABOUT THREE-FOURTHS THAT BETWEEN THE SOVIET UNION AND NORTH KOREA. SOVIET-NORTH KOREAN TRADE TOTALLED

SOME US\$450 MILLION IN 1974, COMPARED WITH \$310 MILLION FOR THE PRC.

3. THE LONG-TERM SINO-NORTH KOREAN AGREEMENT PRESUMABLY COVERS 1977-1980, AND THUS REPLACES THE AGREEMENT FOR 1971-1976 SIGNED IN OCTOBER 1970, SOME INCREASES, AND PERHAPS A SIZABLE INCREASE, IS PROBABLY CALLED FOR IN THE NEW AGREEMENT. FOREIGN EXCHANGES STRINGENCY, WHICH FORCED A DEFAULT ON DEBTS TO THE WESTERN WORLD IN 1975, APPEARS TO BE COMPELLING NORTH KOREA TO SHIFT MORE OF ITS TRADE BACK TO COMMUNIST COUNTRIES. ON FEBRUARY 9, 1976 PYONGYANG SIGNED A FIVE-YEAR (1976-80) TRADE AGREEMENT WITH MOSCOW WHICH REPORTEDLY PROVIDED FOR A 40 PERCENT INCREASE IN TRADE OVER THE AGREEMENT PERIOD.

4. THE 1977 TRADE PROTOCOL, LIKE PREVIOUS PROTOCOLS, SETS A TARGET LEVEL FOR MORE-OR-LESS BALANCED TRADE BETWEEN THE TWO COUNTRIES. IN 1976, MAJOR COMMODITIES THE TWO SIDES AGREED TO EXCHANGE INCLUDED, FOR CHINESE EXPORTS, COKE AND COKING COAL (2.5 MILLION TONS), OIL AND OIL PRODUCTS (900,000 TONS), SOYA BEANS (40,000 TONS) COTTON (30,000 TONS), AND SALT (100,000 TONS). CHINESE IMPORTS WERE SET TO INCLUDE IRON ORE (1.5 MILLIONS TONS), STEEL (80,000 TONS), CEMENT (300,000 TONS), MACHINERY (3,000 UNITS) AND ANTHRACITE AND LIGNITE COAL (1.9 MILLIONS TONS) (REF B).

5. REF C AND OTHER REPORTS SUGGEST THAT THE PRC
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WAS UNABLE LAST YEAR TO SUPPLY SOME COMMODITIES TO TRADING PARTNERS AT AGREED LEVELS: THE SAME MAY VERY WELL HAVE HELD TRUE FOR KOREA. THE PRC PROBABLY HAD PARTICULAR DIFFICULTY FULFILLING ITS COKING COAL EXPORT COMMITMENTS AFTER THE JULY EARTHQUAKE. A NEW AGREEMENT WOULD PRESUMABLY TAKE ACCOUNT OF THIS BY REDUCING THE TARGET FOR THIS COMMODITY. IN PETROLEUM TRADE, THE PRC AND THE USSR SEEM TO SUPPLY ROUGHLY EQUAL AMOUNTS (SOME 900,00 TONS EACH IN 1976) TO NORTH KOREA. IN 1977 CHINA MAY STEP UP OIL EXPORTS TO NORTH KOREA (PRC DOMESTIC DEMAND PERMITTING) IN ACCORDING TO SOME REPORTS, THE SOVIETS HAVE ALREADY AGREED TO STEP UP COKING COAL SHIPMENTS, MAKING UP THE CHINESE SHORTFALLS.

6. COMMENT: SINO-NORTH KOREAN TRADE POSSESSES MORE THAN THE NORMAL POLITICAL COMPONENT. BY SUPPLYING PYONGYANG WITH SUCH STRATEGIC MATERIALS AS PETROLEUM, THE PRC RETAINS SOME MEASURE OF LEVERAGE WITH NORTH

KOREA. PEKING WOULD PROBABLY NOT WISH TO SEE ITSELF
OVERSHADOWED IN ANY MAJOR WAY BY THE SOVIET UNION
AS A SOURCE OF NORTH KOREAN IMPORTS. FOR THIS
REASON ALONE, THE PRC IS LIKELY TO TRY TO MATCH
ANY EXPANSION OF SOVIET TRADE.
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Message Attributes

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